

## Message Text

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ACTION EB-07

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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TAGS: EFIN, ECON, RP

SUBJECT: CURRENT PHILIPPINE BALANCE OF PAYMENTS SITUATION AND OUTLOOK

HONG KONG FOR GORDON

SUMMARY. PHILIPPINE OFFICIALS ARE CURRENTLY PREDICTING A 1975 BALANCE OF PAYMENTS DEFICIT OF \$300 TO 400 MILLION, ABOUT \$200 MILLION GREATER THAN EXPECTED AT THE BEGINNING OF THE YEAR. FALLING PRICES FOR MAJOR PHILIPPINE EXPORTS, PARTICULARLY SUGAR, ARE PRIMARILY RESPONSIBLE FOR THE CHANGED PREDICTION. THE ECONOMY'S GROSS FOREIGN EXCHANGE RESERVES OF \$1.2 BILLION AND ALREADY ESTABLISHED CREDIT LINES OF \$650 MILLION, INCLUDING AN IMF STANDBY OF OVER \$29 MILLION, WILL ENABLE IT TO COVER THE ANTICIPATED DEFICIT WITHIN TOLERABLE LEVELS OF DRAWDOWN IN RESERVES AND OF INCREASE IN TOTAL FOREIGN DEBT. BASED ON PROJECTIONS OF MODEST UPTURNS IN THE ECONOMIES OF MAJOR TRADE PARTNERS BEFORE THE END OF CY 1975, PHILIPPINE OFFICIALS ARE MILDLY OPTIMISTIC ABOUT THE ECONOMIC OUTLOOK FOR LATE 1975 AND 1976, ALTHOUGH KEY OFFICIALS SAY THEY ANTICIPATE A LEVELING OUT OF OVERALL FOREIGN INVESTMENT ACTIVITY.

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END SUMMARY

1. RECENT ASSESSMENTS OF PHILIPPINE BALANCE OF PAYMENTS PROSPECTS FOR 1975 INDICATE A LARGER DEFICIT THAN ANTICIPATED AT THE BEGINNING OF THE YEAR. GOP OFFICIALS THEN EXPECTED A TRADE DEFICIT OF \$500 MILLION AND A BALANCE OF PAYMENTS DEFICIT - EXCLUDING MONETARY CAPITAL - OF UP TO \$200 MILLION. CENTRAL BANK OFFICIALS HAVE INFORMED EMBASSY OFFICER THAT BANK NOW PROJECTS 1975 TRADE DEFICIT OF \$700 MILLION AND BALANCE OF PAYMENTS DEFICIT OF \$300 TO \$400 MILLION.

2. SOFT MARKET CONDITIONS FOR MAJOR PHILIPPINE EXPORTS ARE PRINCIPALLY RESPONSIBLE FOR THIS REASSESSMENT. PHILIPPINE EARNINGS FROM LOGS AND LUMBER, COCONUT OIL AND COPPER CONCENTRATES WERE OFF SHARPLY IN THE FIRST FOUR MONTHS OF THE YEAR. WITH SUGAR PRICES NOW ALSO MUCH LOWER, CB OFFICIALS PROJECT 1975 EXPORT EARNINGS MAY FALL BELOW \$2.5 BILLION COMPARED WITH \$2.6 BILLION IN 1974. THE CENTRAL BANK HAS PROJECTED IMPORT PAYMENTS AT \$3.2 BILLION. MAJOR COMPONENTS OF THE IMPORT BILL WILL BE OIL PAYMENTS AND PAYMENTS FOR ESSENTIAL PRODUCER GOODS.

3. THE EXTERNAL RESOURCES OF THE PHILIPPINES ARE ADEQUATE TO MEET THE CURRENTLY ANTICIPATED \$300 TO \$400 BALANCE OF PAYMENTS DEFICIT FOR 1975. INTERNATIONAL RESERVES, NET OF COMMERICAL BANKS' LIABILITIES, AT THE END OF APRIL WERE NEARLY \$1.2 BILLION. THE CENTRAL BANK HAS SO FAR IN 1975 USED ONLY A MINOR PORTION OF THE \$650 MILLION IN CREDITS ARRANGED WITH FOREIGN PRIVATE BANKS LAST YEAR. ITS NET BORROWINGS OF MONETARY CAPITAL THROUGH APRIL AMOUNTED TO \$155 MILLION, BUT REFLECT AN ADVANCE OIL PAYMENT TO INDONESIA OF ALMOST THAT AMOUNT. CENTRAL BANK OFFICIALS STATE THE PHILIPPINES HOPES TO OBTAIN AN ADDITIONAL \$200 MILLION FROM THE INTERNATIONAL MONETARY FUNDS EXTERNAL FACILITY. IMF OFFICIALS REPORTEDLY HAVE INFORMED GOP THAT PHILIPPINE RESERVES ARE TOO HIGH (SIC) TO PERMIT THE COUNTRY ACCESS TO THE IMF PETROLEUM FACILITY. THIS IMF POSTURE MAY ALTER AS PHILIPPINE BORROWINGS NOW ARE ABOVE OR NEARLY AT DEBT CEILINGS RECOMMENDED IN THE STANDBY AGREEMENT.

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4. PHILIPPINE OFFICIALS ARE PREDICTING AN IMPROVED ECONOMIC SITUATION TOWARD THE END OF 1975 AND IN 1976. GROWTH IN FOOD PRODUCTION AND IN CONSTRUCTION EXPECTED

TO ENABLE A MODEST GAIN IN THE GROWTH RATE OF GROSS PRODUCT IN 1975. THE PRICE LEVEL, AS MEASURED BY THE

MANILA CONSUMERS PRICE INDEX HAS BEEN STABLE FOR THE SIX MONTH PERIOD FROM SEPTEMBER OF 1974 AND HAS RISEN LESS THAN 12 PERCENT OVER ITS LEVEL IN APRIL LAST YEAR. THIS IS BELOW EARLIER IMF PROJECTIONS. ACCORDING TO PHILIPPINE FINANCE SECRETARY CESAR VIRATA, THE NOW ANTICIPATED RECOVERY OF THE ECONOMIES OF THE PHILIPPINES' MAJOR TRADING PARTNERS IN 1976 WILL STRENGTHEN DEMAND FOR PHILIPPINE EXPORTS IN THE MONTHS AHEAD AND CONTRIBUTE TO ACCELERATION OF ECONOMIC ACTIVITY.

5. A KEY FOR THE PHILIPPINES AS FOR DEVELOPING COUNTRIES GENERALLY IS RECOVERY IN MAJOR WESTERN ECONOMIES, HOPEFULLY WITHOUT THE EXAGGERATED COMMODITY PRICE BOOMS THAT PRECEDED AND PEAKED FOLLOWING THE ENERGY CRISIS. WAVES OF SPECULATIVE SHOCK TO PRICES ARE STILL BEING FELT, FOR THE PHILIPPINES ESPECIALLY ON SUGAR AND COPPER. FORTUNATELY, FOR THE MOMENT AT LEAST, FILIPINO EXTERNAL ACCOUNT PLANS INCLUDE A LARGER BOOST IN OIL COSTS THAN SO FAR HAS OCCURRED IN 1975. THAT, OF COURSE, MAY YET PROVE ILLUSORY.  
PURNELL

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## Message Attributes

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